



NEWS RELEASE

DEFENSE FINANCE AND ACCOUNTING SERVICE
1851 South Bell, Crystal Mall 3
Arlington, Virginia 22240-5291

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DFAS prepares Making Work Pay tax withholding rates

ARLINGTON, VA, March 10, 2009 – Many active duty, reserve and National Guard military personnel, military retirees and annuitants, and federal government civilian employees paid by the Defense Finance and Accounting Service will soon see their paychecks increased as new IRS tax withholding rates are introduced.

The Internal Revenue Service released the new withholding rates Feb. 21 to incorporate the Making Work Pay credit, a component of the American Recovery and Reinvestment Act of 2009. Unlike the 2008 economic stimulus payments which were mailed separately to each taxpayer, the 2009 credit will be figured into withholding rates, thus paying each taxpayer throughout the year with higher take-home amounts.

DFAS is currently updating the pay systems supporting its payroll customers to reflect the new IRS guidelines. The IRS has encouraged employers to implement the new rates by April 1. Officials have projected that the changes would be implemented the first payday in April.

According to an IRS press release, "Eligible workers will get the benefit of this change without any action on their part. This means that workers don't need to fill out a new W-4 withholding form to get the Making Work Pay credit reflected in their take-home pay. A Form W-4 will not need to be submitted for the automatic withholding change. Individuals and couples with multiple jobs may want to submit revised Form W-4 forms to ensure enough withholding is held to cover the tax for the combined income."

DFAS officials remind their pay customers that it is each taxpayer's responsibility to insure enough wages are withheld to cover their tax liability. Customers with multiple jobs are encouraged to review their current withholding amounts and the amount of income taxes they will likely pay. IRS Publication 919 (available at www.irs.gov) provides additional guidance for tax withholding.

The Making Work Pay credit will be available to most taxpayers during 2009 and 2010. The maximum credit for married couples filing jointly will be \$800 and \$400 for other taxpayers. Taxpayers with higher income may not realize any changes to their withholding rates.

"Many higher-income taxpayers will see little or no change in their take-home pay," according to the IRS release. "That's because the Making Work Pay credit is phased out for a married couple filing a joint return whose modified adjusted gross income (AGI) is between \$150,000 and \$190,000 and other taxpayers whose modified AGI is between \$75,000 and \$95,000."

"Because the credit is refundable (people can get it even if they owe no tax), most low-income workers will also qualify for the full credit. Though all eligible taxpayers will need to claim the credit when they file their 2009 income tax return next year, the benefit will generally be spread out over the paychecks they receive beginning this spring and continue until the end of the year."

The IRS also released new tables for computing the advance payment of earned income credit. These tables change the percentage formula to increase payments for some married military members. The new percentage formula will be implemented by April 1 as well..

The IRS press release on the new withholding rates and the Making Work Pay credit may be found at <http://www.irs.gov/newsroom/article/0,,id=204521,00.html>.

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Points of Contact

Defense Finance and Accounting Service
Corporate Communications
Steve Burghardt
Phone: 303-517-6687

About DFAS

The Defense Finance and Accounting Service provides responsive, professional finance and accounting services to the men and women who defend America. DFAS pays about 6 million people and in the FY 2008 made 7.5 million travel payments, paid 14.4 million commercial invoices, made \$591 billion in disbursements to pay recipients, and managed \$394 billion in military retirement and health benefits funds. For more about DFAS visit <http://www.dfas.mil>.